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YouGov UK YouGov – US Polimetrix A Meeting of the Minds

835p 12 December 2006

YouGov, the online polling and market research company, has announced that it is to make a strategic investment in US based online political and social agency Polimetrix.

Polimetrix was founded in 2004 by Stanford University Professor, Douglas Rivers. The company is principally engaged in providing online polling services for political campaigns, the media, market research organisations and corporations. Polimetrix currently employs a team of around 20 and is in the process of expanding – at least five positions within the company are on offer.

Polimetrix is the third start-up company to have been founded by Professor Rivers. His first start-up, Preview Systems, was sold to Aladdin Knowledge Systems in 2001 for US\$5m and his second start-up, Knowledge Networks, is currently ranked as the 25th largest market research company in the US. Although Professor Rivers ceased to be the CEO of Knowledge Networks in 2002 he has continued to act as the Chairman of Knowledge Networks' Board. We understand from YouGov that Professor Rivers has recently stepped down from his position at Knowledge Networks and that he will now be fully committed to Polimetrix for a period of at least 24 months.



Share Price: 835p

12m High: 835p

12m Low: 266p

Market Cap: £111m

Shares in issue: 13.3m

NAV/Share: 51p

Gearing: Net cash

Interest Cover: n/a

EPIC Code: YOU

ISIN: GB00B0771P53

Sector: Media & Entertainment

Market: London AIM

PR: Financial Dynamics

Website: www.yougov.com

Broker: Numis Securities Limited

Previous Research Note: "Full Year Results – Firing on All Cylinders" 11 October 2006

Analyst: Rae Ellingham

| Y/E | Sales | Ebit | Pre-tax | EPS | P/e ratio | Divi p. | Yield |
|---------|-------|------|-----------|------------|-----------|---------|-------|
| 31 July | £m | £m | Profit £m | Diluted p. | | | % |
| 2005A | 2.9 | 0.9 | 0.9 | 5.6 | 149.1 | - | - |
| 2006A | 9.6 | 3.9 | 4.1 | 21.1 | 39.6 | - | - |
| 2007E | 12.3 | 4.6 | 4.9 | 25.7 | 32.5 | - | - |
| 2008E | 14.2 | 5.1 | 5.7 | 29.4 | 28.4 | - | - |

Under the terms of YouGov's strategic investment YouGov is to subscribe for 5.4m new shares in Polimetrix for a sum of £3.8m. This gives YouGov a 32% stake in Polimetrix and values Polimetrix at close to £12m. YouGov then has the option to acquire the remainder of the company within 30 months. While the initial consideration of £3.8m is to be paid in cash the final consideration mix, should YouGov choose to exercise its option, is yet to be determined.

With Polimetrix only being founded in 2004 the company is at an early stage in its life cycle – it could be classified as an “early stage version of YouGov”. YouGov does not expect its investment in Polimetrix to be earnings enhancing in the current financial year, but does expect the investment to be earnings enhancing in the “first full year of ownership”.

Two years ago YouGov was turning over just under £2m (revenues this financial year were £9.6m) and we expect that Polimetrix current revenues are around this level, ie US\$2m. The company has not disclosed details and as Polimetrix is a private company its accounts are not publicly available. We note that Polimetrix is currently advertising for both a Regional Sales Manager and a Telesales Manager and that the combined sales target for these two positions is US\$1.5m in one year and US\$3m in two years.

It is not, however, Polimetrix's current earnings that are important to YouGov. It is the potential that might be derived from this initial entry into the lucrative US marketplace.

The £3.8m which is to be invested by YouGov is to be used to launch YouGov products into the US market place. Neither Professor Rivers nor Alloy Ventures (an early stage venture capital investor

currently funding Polimetrix) have sold down their shareholdings – the entire investment is to be retained within the company in order to fund future growth.

Under the agreement YouGov and Polimetrix's technologies will be cross-licenced enabling YouGov to sell Polimetrix's products internationally (excluding the US and Canada) and Polimetrix to sell YouGov's products in the US and Canada.

The scope for both BrandIndex (YouGov's consumer preference tracking service) and YGX (YouGov's 50/50 joint venture with Execution Limited which polls consumers directly on their perceptions of stock market listed company brands) is enormous.

Trading Update

At its AGM last week YouGov also provided a brief update on trading for the year stating that the “current year has started well with trading in both the UK and Middle East in line with expectations”.

Without clear visibility on the US at this stage we are leaving our current forecasts and valuation of 745p per share unchanged but as we commented in our previous note - “Full Year Results – Firing on All Cylinders” - it is difficult to see much in the way of downside risk from this company – only upside.

We see this latest move as a positive step for YouGov in that it gives the company a toehold into the lucrative US market. Clearly so do YouGov's directors who have been buying recently.

With £5.5m in the bank at the end of July 2006 and YouGov being a highly cash generative business YouGov will continue to be cash positive following this investment.

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